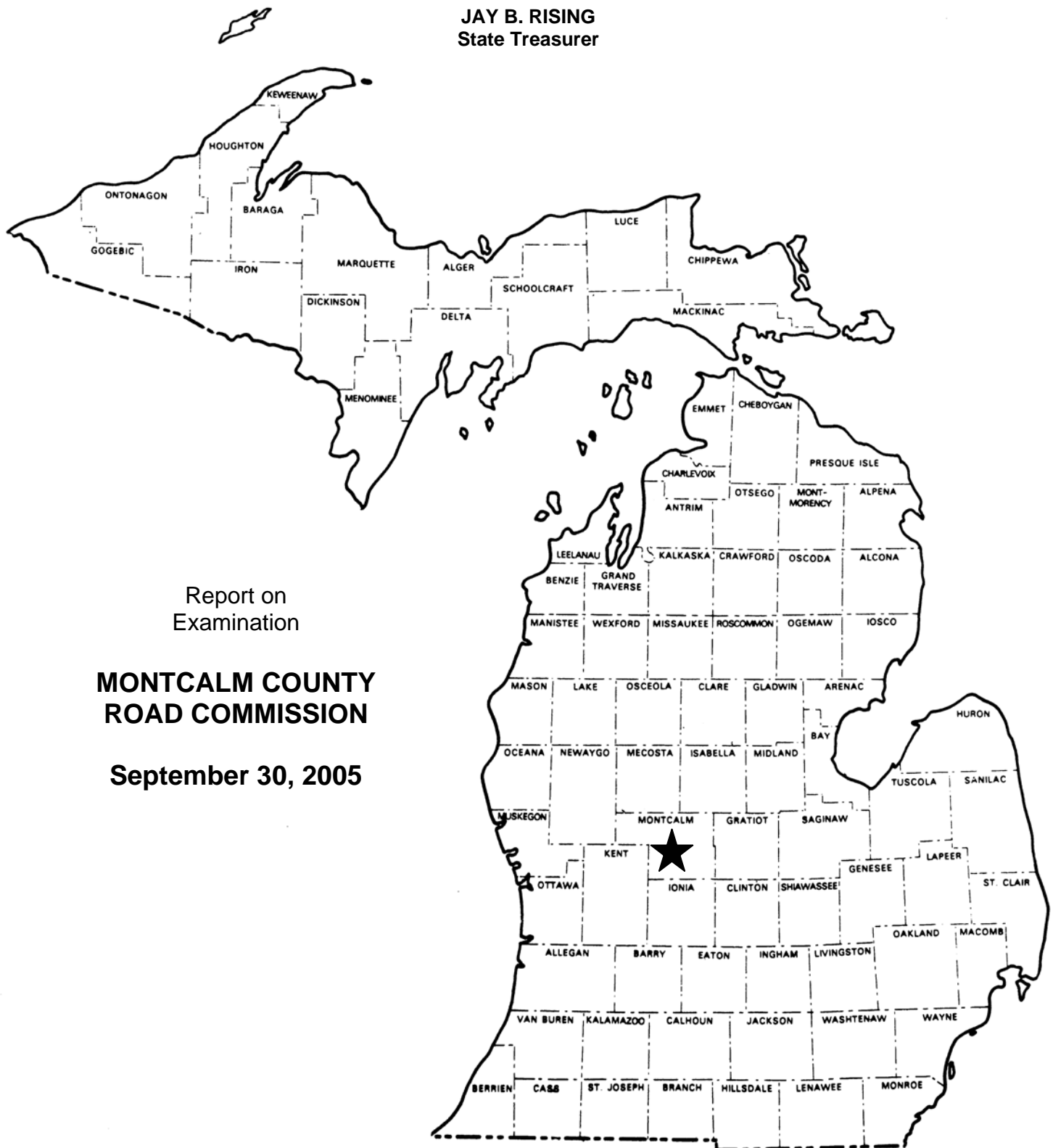


**STATE OF MICHIGAN**  
JENNIFER M. GRANHOLM, Governor  
**DEPARTMENT OF TREASURY**

JAY B. RISING  
State Treasurer



Report on  
Examination

**MONTCALM COUNTY  
ROAD COMMISSION**

**September 30, 2005**

Local Audit and Finance Division  
Bureau of Local Government Services

MONTCALM COUNTY ROAD COMMISSION  
BOARD OF COUNTY ROAD COMMISSIONERS

Dale Linton  
Chairperson

Robert Brundage  
Vice Chairperson

Donald McCracken  
Member

Randy Stearns  
Managing Director

Karen Swan  
Finance Director/Clerk

COUNTY POPULATION--2000  
61,266

STATE EQUALIZED VALUATION--2005  
\$2,131,003,669



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

JAY B. RISING  
STATE TREASURER

December 20, 2005

Board of County Road Commissioners  
Montcalm County  
619 West Main Street  
P.O. Box 337  
Stanton, Michigan 48888

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying basic financial statements of the Montcalm County Road Commission, a component unit of Montcalm County, Michigan, as of and for the year ended September 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montcalm County Road Commission as of September 30, 2005 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 7 and budget comparison information in Exhibits G and H are not part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated December 20, 2005 on our consideration of the Montcalm County Road Commission's internal control over financial reporting and our test on its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprises the Montcalm County Road Commission's basic financial statements. The accompanying supplemental and related information presented as Exhibits I through K is for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

# **MONTCALM COUNTY ROAD COMMISSION**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### Using this Annual Report

The Montcalm County Road Commission's discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the Road Commission's financial activity; c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

### Overview of the Financial Statements

This annual report consists of four parts--management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

### Reporting the Road Commission as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the Road Commission's net assets and changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases and decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

**MONTCALM COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Report the Road Commission's Major Fund

The fund financial statements begin on page eight and provide detailed information about the major fund. The Road Commission currently has only one fund, the General Operations Fund, in which all of the Road Commission's activities are accounted. The General Operations Fund is a governmental type fund.

- Governmental Fund--The governmental fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The Road Commission's beginning net assets were restated from \$25,121,683 to \$30,589,090 due to additional infrastructure for bridges and a change in accounting for seal coat roads. The Road Commission's net assets increased approximately 3.06% or \$968,379 from \$30,589,090 to \$31,557,469 for the year ended September 30, 2005. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, decreased \$944,210. The investment in capital assets-net of related debt increased by \$7,379,996, which was primarily due to the current year's \$4,896,877 increase in infrastructure, an increase in the net restatement of prior year infrastructure of \$5,467,408, and depreciation expense (decrease) related to infrastructure of \$3,203,094.

**MONTCALM COUNTY ROAD COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Net assets as of year ended September 30, 2005 are as follows:

|                          | Governmental<br>Activities<br>09/30/04 | Governmental<br>Activities<br>09/30/05 | Variance<br>Increase<br>(Decrease) |
|--------------------------|--|--|------------------------------------|
| Assets                   |  |  |                                    |
| Current and Other Assets | \$ 3,173,978                           | \$ 1,992,629                           | \$ (1,181,349)                     |
| Net Capital Assets       | <u>24,981,150</u>                      | <u>32,142,340</u>                      | <u>7,161,190</u>                   |
| Total Assets             | <u>28,155,128</u>                      | <u>34,134,969</u>                      | <u>5,979,841</u>                   |
| Liabilities              |  |  |                                    |
| Current Liabilities      | 766,982                                | 672,902                                | (94,080)                           |
| Long-Term Liabilities    | <u>2,266,463</u>                       | <u>1,914,798</u>                       | <u>(351,665)</u>                   |
| Total Liabilities        | <u>3,033,445</u>                       | <u>2,587,700</u>                       | <u>(445,745)</u>                   |
| Net Assets               |  |  |                                    |
| Related Debt             | 22,905,711                             | 30,285,707                             | 7,379,996                          |
| Restricted               | <u>2,215,972</u>                       | <u>1,271,762</u>                       | <u>(944,210)</u>                   |
| Total Net Assets         | <u>\$ 25,121,683</u>                   | <u>\$ 31,557,469</u>                   | <u>\$ 6,435,786</u>                |

**MONTCALM COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Changes in Net Assets

A summary of changes in net assets for the year ended September 30, 2005 follows:

|                                | Governmental<br>Activities<br>09/30/04 | Governmental<br>Activities<br>09/30/05 | Total<br>Percentage<br>Change |
|--------------------------------|--|--|-------------------------------|
| Program Revenue                |  |  |                               |
| Licenses and Permits           | \$ 13,152                              | \$ 20,795                              | 36.75%                        |
| Federal Grants                 | 780,062                                | 299,740                                | -160.25%                      |
| State Grants                   | 6,275,487                              | 6,403,893                              | 2.01%                         |
| Contributions From Local Units | 2,119,293                              | 2,356,912                              | 10.08%                        |
| Charges for Services           | 1,053,214                              | 934,705                                | -12.68%                       |
| Investment Earnings            | 217,565                                | 150,448                                | -44.61%                       |
| Reimbursements                 | 182,199                                | 6,119                                  | -2877.59%                     |
| General Revenue                |  |  |                               |
| Taxes                          | 524                                    | 534                                    | 1.87%                         |
| Insurance Recoveries           |  | 6,433                                  | 100.00%                       |
| Gain on Equipment Disposal     | 37,291                                 | 18,663                                 | -99.81%                       |
| Total Revenue                  | 10,678,787                             | 10,198,242                             | -4.71%                        |
| Expenses                       |  |  |                               |
| Primary Road Maintenance       | 1,219,084                              | 1,397,499                              | -12.77%                       |
| Local Road Maintenance         | 3,436,392                              | 3,919,662                              | -12.33%                       |
| State Trunkline Maintenance    | 991,147                                | 918,771                                | 7.88%                         |
| Net Equipment Expense          | (288,497)                              | (66,985)                               | 330.69%                       |
| Net Administrative Expense     | 363,051                                | 387,861                                | -6.40%                        |
| Infrastructure Depreciation    | 2,653,802                              | 2,611,363                              | 1.63%                         |
| Compensated Absences           | (20,643)                               | 4,175                                  | -594.44%                      |
| Interest Expense               | 52,939                                 | 57,516                                 | -7.96%                        |
| Total Expenses                 | 8,407,275                              | 9,229,862                              | -8.91%                        |
| Increase in Net Assets         | \$ 2,271,512                           | \$ 968,380                             | 134.57%                       |

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies, distributed to the county, which are earmarked by law for road and highway purposes.



## **MONTCALM COUNTY ROAD COMMISSION**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the year ended September 30, 2005, the fund balance of the General Operations Fund decreased to \$1,342,833 following a decrease of \$455,865 in the fund balance for the year ended September 30, 2004 (last year). Total operating revenues were \$10,198,242, a decrease of \$480,545 as compared to last year, which was primarily the result of a decrease in Michigan Transportation Funds of approximately \$229,089, a reduction in Federal Aid of \$480,321, a decrease in State Economic Development funds of \$183,417, and an increase in township contributions of \$423,520.

Total expenditures of \$11,138,275 equaled an increase of \$3,624, which is a minimal change compared to last year.

#### **Budgetary Highlights**

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission's Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the Board reviews and authorizes large expenditures when requested throughout the year.

The original revenue budget for 2005 was less than the actual revenue by \$798,906. This was due, in large part, to actual local contributions being higher by \$821,035.

The Road Commission's original expenditures were projected at \$9,614,706, while actual expenditures were \$11,138,275. This resulted in total expenditures exceeding original budget by \$1,523,569. This was primarily due to primary road maintenance expenditures being higher by \$274,820 and local road maintenance expenditures being higher by \$1,583,322.

**MONTCALM COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Capital Assets and Debt Administration

Capital Assets

As of September 30, 2005 (year end), the Road Commission had \$32,142,340 invested in capital assets as follows:

|                                      | 9/30/04       | 09/30/05      | Total<br>Percentage<br>Change |
|--------------------------------------|---------------|---------------|-------------------------------|
| Capital Assets Not Being Depreciated |               |               |                               |
| Land/Right-of-Way                    | \$ 33,708     | \$ 33,708     | 0%                            |
| Land and Improvements                | 4,690,355     | 4,690,355     | 0%                            |
| Subtotal                             | 4,724,063     | 4,724,063     | 0%                            |
| Capital Assets Being Depreciated     |               |               |                               |
| Buildings                            | 2,152,021     | 2,192,254     | 2%                            |
| Road Equipment                       | 6,163,166     | 6,732,835     | 8%                            |
| Shop Equipment                       | 94,745        | 112,644       | 16%                           |
| Office Equipment                     | 132,013       | 158,663       | 17%                           |
| Engineers Equipment                  | 38,043        | 38,043        | 0%                            |
| Yard and Storage                     | 359,683       | 359,683       | 0%                            |
| Infrastructure--Bridges              | 485,147       | 8,912,037     | 95%                           |
| Infrastructure--Roads                | 47,857,985    | 48,659,001    | 2%                            |
| Depletable Assets                    | 6,750         | 6,750         | 0%                            |
| Construction-in-Progress             | 6,322         |               | -100%                         |
| Subtotal                             | 57,295,875    | 67,171,910    | 15%                           |
| Total Capital Assets                 | 62,019,938    | 71,895,973    | 14%                           |
| Total Accumulated Depreciation       | (37,038,492)  | (39,753,633)  | 7%                            |
| Total Net Capital Assets             | \$ 24,981,446 | \$ 32,142,340 | 22%                           |

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$9,227,907, which includes \$8,426,890 for the initial set up of existing bridges in Capital Assets and the reduction of \$3,154,467 for the reclassification of seal coat roads from "preservation" to "maintenance." The infrastructure is financed through Federal, State and local contributions.

**MONTCALM COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

This year's major capital asset additions included the following:

|  |                            |
|--|----------------------------|
| Reconstruction of Bridges (by location)                    | \$ 80,960                  |
| Various Resurfacing Projects and Related Land/Right-of-Way | 3,955,483                  |
| Trucks/Equipment   | 793,552                    |
| Administrative and Engineering                             | 26,650                     |
| Buildings  | <u>40,232</u>              |
| Total Additions  | <u><u>\$ 4,896,877</u></u> |

There were no installment purchase agreements entered into in 2005. The Road Commission utilized PA 143 bonds sold in the latter part of 2003 to complete primary road infrastructure improvements started in 2004.

During 2005, the Road Commission traded in and/or disposed of road equipment with a purchase amount of \$205,983 and related depreciation of \$205,983.

Debt

The Road Commission currently has long-term debt in the amount of \$1,927,703, a decrease of \$214,629 from the prior year. The long-term debt represents PA143 bonds, two lease-purchase agreements, and compensated absences payable at September 30, 2005.

Economic Factors and Next Year's Budget

The board of county road commissioners considered many factors when setting the fiscal year 2006 budget. One of the factors is the economy and high fuel prices. The Road Commission derives approximately half of its revenues from the fuel tax collected. The economic downturn and high fuel prices have resulted in less consumption of fuel and consequently less Michigan Transportation Fund tax to be distributed.

The board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Montcalm County's transportation system; therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Montcalm County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Road Commission for Montcalm County administrative offices at 619 West Main Street, Stanton, Michigan 48888.

**MONTCALM COUNTY ROAD COMMISSION**  
**STATEMENT OF NET ASSETS**  
**September 30, 2005**

**EXHIBIT A**

**ASSETS**

|  |                   |
|--|-------------------|
| Cash   | \$ 142,319        |
| Accounts Receivable                              |                   |
| Sundry Accounts                                  | 581               |
| State--Trunkline Maintenance                     | 90,188            |
| Michigan Transportation Fund                     | 949,857           |
| State--Other                                     | 16,221            |
| Due From Cities/Villages                         | 14,975            |
| Due on County Road Agreements                    | 343,510           |
| Inventories                                      |                   |
| Road Materials                                   | 274,104           |
| Equipment Parts and Materials                    | 154,737           |
| Restricted Cash                                  | 16,337            |
| Capital Assets (Net of Accumulated Depreciation) | <u>32,142,340</u> |
| Total Assets                                     | <u>34,145,169</u> |

**LIABILITIES**

|  |                  |
|--|------------------|
| Current Liabilities  |                  |
| Accounts Payable   | 291,790          |
| Due to State of Michigan                                     | 1,519            |
| Accrued Liabilities  | 33,537           |
| Performance Bonds Payable                                    | 2,250            |
| Due to Townships   | 125,000          |
| Non-Current Liabilities                                      |                  |
| Advance From State   | 205,900          |
| Bonds Payable--Due within One Year                           | 200,000          |
| Bonds Payable  | 1,400,000        |
| Installment Purchase Agreements Payable--Due Within One Year | 18,805           |
| Installment Purchase Agreements Payable                      | 237,828          |
| Vested Employee Benefits Payable                             | <u>71,071</u>    |
| Total Liabilities  | <u>2,587,700</u> |

**NET ASSETS**

|                              |                     |
|------------------------------|---------------------|
| Investment in Capital Assets |                     |
| Net of Related Debt          | 30,285,707          |
| Restricted for County Roads  | <u>1,271,762</u>    |
| Total Net Assets             | <u>\$31,557,469</u> |

**The Notes to Financial Statements are an integral part of this statement.**

**MONTCALM COUNTY ROAD COMMISSION**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2005**

**EXHIBIT B**

|   |               |
|---|---------------|
| Program Expenses                                |               |
| Primary Road Routine and Preventive Maintenance | \$ 1,397,499  |
| Local Road Routine and Preventive Maintenance   | 3,919,662     |
| State Trunkline Maintenance and Non-Maintenance | 918,771       |
| Net Equipment Expense                           | (66,985)      |
| Net Administrative Expense                      | 387,861       |
| Infrastructure Depreciation                     | 2,611,363     |
| Compensated Absences                            | 4,175         |
| Interest Expense                                | 57,516        |
|   | <hr/>         |
| Total Program Expenses                          | 9,229,862     |
|   | <hr/>         |
| Program Revenue                                 |               |
| Charges for Services                            |               |
| License and Permits                             | 20,795        |
| Charges for Services                            | 934,705       |
| Reimbursements                                  | 6,119         |
| Operating Grants and Contributions              |               |
| State Grants                                    | 6,262,712     |
| Investment Earnings                             | 150,447       |
| Capital Grants and Contributions                |               |
| Federal Grants                                  | 299,740       |
| State Grants                                    | 141,180       |
| Contributions From Local Units                  | 2,356,913     |
|   | <hr/>         |
| Total Program Revenue                           | 10,172,611    |
|   | <hr/>         |
| Net Program Revenue                             | 942,749       |
|   | <hr/>         |
| General Revenue                                 |               |
| Taxes   | 534           |
| Insurance Recoveries                            | 6,433         |
| Gain on Equipment Disposal                      | 18,663        |
|   | <hr/>         |
| Total General Revenues and Transfers In         | 25,630        |
|   | <hr/>         |
| Change in Net Assets                            | 968,379       |
|   | <hr/>         |
| Net Assets                                      |               |
| Beginning of Year                               | 25,121,683    |
| Restatement to Beginning Net Assets (Note F)    | 5,467,407     |
|   | <hr/>         |
| Restated Beginning Net Assets                   | 30,589,090    |
|   | <hr/>         |
| End of Year                                     | \$ 31,557,469 |
|   | <hr/>         |

**The Notes to Financial Statements are an integral part of this statement.**

**MONTCALM COUNTY ROAD COMMISSION**  
**BALANCE SHEET**  
**September 30, 2005**

**EXHIBIT C**

|   | <b>GOVERNMENTAL<br/>FUND TYPE</b>     |
|---|---------------------------------------|
|   | <u>General<br/>Operating<br/>Fund</u> |
| <b><u>ASSETS</u></b>                      |                                       |
| Cash                                      | \$ 142,319                            |
| Accounts Receivable                       |                                       |
| State Trunkline Maintenance               | 90,188                                |
| Michigan Transportation Fund              | 949,857                               |
| State Highway--Other                      | 16,221                                |
| Due From Other Governmental Units         | 14,975                                |
| Due on County Road Agreements             | 343,510                               |
| Sundry Receivables                        | 581                                   |
| Inventories                               |                                       |
| Road Materials                            | 274,104                               |
| Equipment Parts and Materials             | 154,737                               |
| Restricted Cash                           | <u>16,337</u>                         |
| Total Assets                              | <u><u>\$ 2,002,829</u></u>            |
| <b><u>LIABILITIES AND FUND EQUITY</u></b> |                                       |
| Liabilities                               |                                       |
| Accounts Payable                          | \$ 291,790                            |
| Due to State                              | 1,519                                 |
| Escrow Payable                            | 2,250                                 |
| Accrued Liabilities                       | 33,537                                |
| Advances                                  |                                       |
| State Trunkline Equipment Purchase        | 123,294                               |
| State Trunkline Maintenance               | 82,606                                |
| Township Road Agreement                   | <u>125,000</u>                        |
| Total Liabilities                         | <u>659,996</u>                        |
| Fund Equities                             |                                       |
| Fund Balance                              |                                       |
| Reserved for Capital Improvements         | 16,337                                |
| Reserved for Inventory                    | 428,841                               |
| Unreserved and Undesignated               | <u>897,655</u>                        |
| Total Fund Equities                       | <u>1,342,833</u>                      |
| Total Liabilities and Fund Equities       | <u><u>\$ 2,002,829</u></u>            |

**The Notes to Financial Statements are an integral part of this statement.**

**MONTCALM COUNTY ROAD COMMISSION  
RECONCILIATION OF THE BALANCE SHEET FUND  
BALANCE TO THE STATEMENT OF NET ASSETS  
For the Year Ended September 30, 2005**

**EXHIBIT D**

|                                 |              |
|---------------------------------|--------------|
| Total Governmental Fund Balance | \$ 1,342,833 |
|---------------------------------|--------------|

Amounts reported for governmental activities in the Statement of Net Assets are  
are different because:

|  |            |
|--|------------|
| Capital assets used in governmental activities are not financial resources and,<br>therefore, are not reported in the funds. | 32,142,340 |
|--|------------|

|   |                    |
|---|--------------------|
| Other long-term assets are not available to pay for current period expenditures<br>and, therefore, are not reported in the funds. | <u>(1,927,704)</u> |
|---|--------------------|

|                                       |                            |
|---------------------------------------|----------------------------|
| Net Assets of Governmental Activities | <u><u>\$31,557,469</u></u> |
|---------------------------------------|----------------------------|

**The Notes to Financial Statements are an integral part of this statement.**

**MONTCALM COUNTY ROAD COMMISSION  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
For the Year Ended September 30, 2005**

**EXHIBIT E**

|  | <u>Operating<br/>Fund</u>  |
|--|----------------------------|
| Revenues                                     |                            |
| Taxes  | \$ 534                     |
| Licenses and Permits                         | 20,795                     |
| Federal Grants                               | 299,740                    |
| State Grants                                 | 6,403,892                  |
| Contributions From Local Units               | 2,356,913                  |
| Charges for Services                         | 926,719                    |
| Interest and Rents                           | 150,447                    |
| Other Revenue                                | <u>39,202</u>              |
| Total Revenues                               | <u>10,198,242</u>          |
| Expenditures                                 |                            |
| Public Works                                 | 10,001,521                 |
| Capital Outlay                               | 860,434                    |
| Debt Service                                 | <u>276,320</u>             |
| Total Expenditures                           | <u>11,138,275</u>          |
| Excess of Revenues Over (Under) Expenditures | <u>(940,033)</u>           |
| Fund Balance--October 1, 2004                | <u>2,282,866</u>           |
| Fund Balance--September 30, 2005             | <u><u>\$ 1,342,833</u></u> |

**The Notes to Financial Statements are an integral part of this statement.**



**MONTCALM COUNTY ROAD COMMISSION  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended September 30, 2005**

**EXHIBIT F**

Net Change in Fund Balance--Total Governmental Funds \$ (940,033)

Amounts reported for governmental activities in the statement are different because:

Governmental funds report capital outlays as expenditures.

However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

1,693,782

Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the Statement of Activities.

Lease proceeds provide current financial resources to governmental funds, but entering into lease agreements increases long-term liabilities in the Statement of Net Assets. Repayment of notes/leases payable is an expenditure in governmental funds, but reduces the long-term liabilities in the Statement of Net Assets.

218,805

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (Increase in compensated absences and decrease in interest expense)

(4,175)

Change in Net Assets of Governmental Activities

\$ 968,379

**The Notes to Financial Statements are an integral part of this statement.**

## MONTCALM COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

The accounting policies of the Montcalm County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Montcalm County Road Commission.

#### NOTE A--REPORTING ENTITY

The Montcalm County Road Commission, which is established pursuant to the County Road Law, Michigan Compiled Laws (MCL) 224.1, is governed by a 3 member elected board of county road commissioners. The Road Commission may not issue debt without the approval of the county board of commissioners, and property taxes would be levied under the taxing authority of the county, as approved by the county electors. If approval is granted, Road Commission taxes are levied under the taxing authority of the county, as approved by the county electors. The taxes would be included as part of the county's total tax levy as well as reported in the County Road Fund.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Montcalm County Road Commission, a discretely presented component unit of Montcalm County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

#### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Montcalm County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets-net of related debt, or restricted net assets.

# MONTCALM COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

#### Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

#### Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: 1) charges to customers or applicants for goods or services or privileges provided; and 2) Michigan Transportation Funds (MTF), State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

#### Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

# MONTCALM COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Michigan Transportation Funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

#### Bank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

#### Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations, as used.

#### Restricted Cash

The revenue notes of 2003 require amounts to be set aside for construction to pay the costs of the project, including the costs of issuance. The remaining funds at September 30, 2005 are classified as restricted assets for the construction of certain road improvements and facilities. As of September 30, 2005, there was a balance of \$16,337 remaining in this restricted account.

#### Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Montcalm County Road Commission as assets with an initial individual cost of more than \$1,500 and an estimated useful life in excess of five years. However, all equipment items (regardless of purchase price or useful life) that have a Schedule C code and rate (Michigan Department of Transportation's "Equipment Rental Rates" report) are capitalized. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated, for fiscal years ending after June 30, 1980, be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. During 2003, the Montcalm County Road Commission capitalized the current year's infrastructure and has also reported the retroactive cost for major infrastructure in the Statement of Net Assets for periods ending after June 30, 1980.

# MONTCALM COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

|                         |                |
|-------------------------|----------------|
| Buildings               | 30 to 50 years |
| Road Equipment          | 5 to 8 years   |
| Shop Equipment          | 10 years       |
| Engineering Equipment   | 4 to 10 years  |
| Office Equipment        | 4 to 10 years  |
| Infrastructure--Roads   | 8 to 30 years  |
| Infrastructure--Bridges | 12 to 50 years |

#### Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

### NOTE C--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

#### Budgetary Procedures

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the county board of road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief administrative officer (superintendent/manager) prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board of road commissioners conducts a public budget hearing and, subsequently, adopts the operating budget. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

# MONTCALM COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE C--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

#### Budget Violations

Public Act 2 of 1968, as amended, requires the adoption of a balanced budget for general and special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. The Road Commission has not complied with certain provisions of the act.

The following activities exceeded the amended budget:

|                                     | <u>Budget</u> | <u>Actual</u> | <u>(Unfavorable)<br/>Variance</u> |
|-------------------------------------|---------------|---------------|-----------------------------------|
| Primary Road                        |               |               |                                   |
| Preservation/Structural Improvement | \$ 2,145,000  | \$ 2,171,396  | \$ (26,396)                       |
| Local Road                          |               |               |                                   |
| Preservation/Structural Improvement | 1,615,000     | 1,784,088     | (169,088)                         |
| Primary Road Structure              |               |               |                                   |
| Routine and Preventive Maintenance  | 165           | 203           | (38)                              |
| Equipment Expense Net               | (148,000)     | (66,984)      | (81,016)                          |
| Administrative Expense--Net         | 384,000       | 387,861       | (3,861)                           |
| Capital Outlay--Net                 | 265,435       | 268,703       | (3,268)                           |

### NOTE D--DEPOSITS AND INVESTMENTS

Deposits are carried at cost. Deposits of the County Road Fund are in various banks in the name of the county treasurer. MCL 129.91, et seq., authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper within the two highest classifications, which matures not more than 270 days after the date of purchase, and which involves no more than 50% of any one fund. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Road Commission deposits are in accordance with statutory authority. The board of county road commissioners has adopted an investment policy similar to the county's policy in accordance with investment provisions in Public Act 20 of 1943, as amended.

# MONTCALM COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE D--DEPOSITS AND INVESTMENTS (Continued)

At year end (and during the year), the Road Commission did not have any investments, the deposits were reported in the basic financial statements in the following categories:

|                                     |                   |
|-------------------------------------|-------------------|
| Bank Deposits (Checking and Savings |                   |
| Accounts, Certificates of Deposits) | \$ 142,268        |
| Petty Cash and Cash on Hand         | 50                |
| Restricted Cash                     | <u>16,337</u>     |
| Total                               | <u>\$ 158,655</u> |

The bank balance of the Road Commission's deposits is \$196,936, of which \$116,337 is covered by Federal depository insurance.

Restricted cash is for bond proceeds remaining that are restricted to infrastructure improvements.

### Investments Authorized by the Road Commission's Investment Policy

The Road Commission's informal investment policy only authorizes investment in all those that are authorized by law.

### Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Road Commission has not addressed interest rate risk in their investment policy.

### Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Long-term certificates of deposit do not have a rating provided by a nationally recognized statistical rating organization.

The Road Commission's investment policy requires assets to be diversified to eliminate the risk of loss resulting from over concentration in a specific maturity, individual financial institution(s) or a specific class of securities.

# MONTCALM COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE D--DEPOSITS AND INVESTMENTS (Continued)

#### Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Entity's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits. The Road Commission has addressed custodial credit risk in their investment policy.

### NOTE E--DEFERRED COMPENSATION PLAN

The Montcalm County Board of Road Commissioners offers all Road Commission employees deferred compensation plans created in accordance with the Internal Revenue Code, Section 457 with Comprehensive Financial Services, Inc. The assets of the plans were held in a trust, custodial account or annuity contract described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time to the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32 requirements, plan balances and activities are not reflected in the Road Commission's financial statements.



# MONTCALM COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE F--CAPITAL ASSETS

The following is a summary of changes in the capital assets:

|                                      | Notes | Account<br>Balances<br>10/1/04 | Additions          | Deductions         | Account<br>Balances<br>09/30/05 |
|--------------------------------------|-------|--------------------------------|--------------------|--------------------|---------------------------------|
| Capital Assets Not Being Depreciated |       |                                |                    |                    |                                 |
| Land                                 |       | \$ 33,708                      |                    |                    | \$ 33,708                       |
| Infrastructure--Land Improvements    |       | 4,690,355                      |                    |                    | 4,690,355                       |
| Subtotal                             |       | 4,724,063                      | \$ -               | \$ -               | 4,724,063                       |
| Capital Assets Being Depreciated     |       |                                |                    |                    |                                 |
| Buildings                            |       | 2,152,022                      | 40,232             |                    | 2,192,254                       |
| Road Equipment                       |       | 6,163,166                      | 775,652            | 205,983            | 6,732,835                       |
| Shop Equipment                       |       | 94,744                         | 17,900             |                    | 112,644                         |
| Office Equipment                     |       | 132,013                        | 26,650             |                    | 158,663                         |
| Engineer's Equipment                 |       | 38,043                         |                    |                    | 38,043                          |
| Yard and Storage                     | 4     | 359,683                        |                    |                    | 359,683                         |
| Infrastructure--Bridges              | 1     | 8,831,077                      | 80,960             |                    | 8,912,037                       |
| Infrastructure--Roads                | 2     | 44,703,518                     | 3,955,483          |                    | 48,659,001                      |
| Depletable Assets                    |       | 6,750                          |                    |                    | 6,750                           |
| Total                                |       | 62,481,016                     | 4,896,877          | 205,983            | 67,171,910                      |
| Less: Accumulated Depreciation       |       |                                |                    |                    |                                 |
| Building                             | 3     | 481,542                        | 44,226             |                    | 525,768                         |
| Road Equipment                       |       | 5,253,356                      | 526,374            | 205,983            | 5,573,747                       |
| Shop Equipment                       |       | 69,023                         | 2,988              |                    | 72,011                          |
| Office Equipment                     |       | 93,146                         | 17,349             |                    | 110,495                         |
| Engineer's Equipment                 |       | 35,789                         | 793                |                    | 36,582                          |
| Yard and Storage                     | 4     | 359,683                        |                    |                    | 359,683                         |
| Infrastructure--Bridges              | 1     | 2,784,857                      | 186,901            |                    | 2,971,758                       |
| Infrastructure--Roads                | 2     | 27,672,376                     | 2,424,463          |                    | 30,096,839                      |
| Depletable Assets                    |       | 6,750                          |                    |                    | 6,750                           |
| Total                                |       | 36,756,522                     | 3,203,094          | 205,983            | 39,753,633                      |
| Net Capital Assets Being Depreciated |       | 25,724,494                     | 4,896,877          | 3,203,094          | 27,418,277                      |
| Total Net Capital Assets             |       | <u>\$30,448,557</u>            | <u>\$4,896,877</u> | <u>\$3,203,094</u> | <u>\$32,142,340</u>             |

# MONTCALM COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE F--CAPITAL ASSETS (Continued)

Beginning net capital assets were restated at October 1, 2004 for the reasons listed below:

|   |                    |                             |
|---|--------------------|-----------------------------|
| Beginning Net Capital Assets  |                    | <u>\$ 24,981,150</u>        |
| Notes   |                    |                             |
| 1) Retroactive Recording of Bridges   |                    |                             |
| Addition to Bridge Capital Assets   | \$ 8,339,607       |                             |
| Less: Accumulated Depreciation  | <u>(2,765,220)</u> | 5,574,387                   |
| 2) Removal of Seal Coat Roads Due to Change in Act 51 Definition  |                    |                             |
| Reduction to Capital Assets   | (3,154,466)        |                             |
| Reduction to Accumulated Depreciation   | <u>3,046,336</u>   | (108,130)                   |
| 3) Buildings--decrease in accumulated depreciation  | 1,150              | 1,150                       |
| 4) Yard and Storage--Increase in Capital Asset and Accumulated Depreciation of \$296, No Impact on Net Assets |                    |                             |
| Total Prior Period Adjustments  |                    | <u>5,467,407</u>            |
| Restated Net Capital Assets at October 1, 2004  |                    | <u><u>\$ 30,448,557</u></u> |

Depreciation expense was charged to the following activities:

|                                | <u>Amount</u>              |
|--------------------------------|----------------------------|
| Net Equipment Expense          |                            |
| Direct Equipment               | \$ 525,867                 |
| Indirect Equipment             |                            |
| Buildings                      | 35,661                     |
| Shop Equipment                 | 2,988                      |
| Net Administrative Expense     |                            |
| Buildings                      | 8,565                      |
| Office Equipment and Furniture | 17,350                     |
| Other                          | 507                        |
| Distributive Expense           |                            |
| Engineer's Equipment           | 793                        |
| Infrastructure                 | <u>2,611,363</u>           |
| Total Depreciation Expense     | <u><u>\$ 3,203,094</u></u> |

# MONTCALM COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE G--LONG-TERM DEBT

The long-term debt of the Road Commission may be summarized as follows:

|  | Balance<br>10/1/04 | Additions<br>(Reduction) | Balance<br>09/30/05 | Due Within<br>One Year |
|--|--------------------|--------------------------|---------------------|------------------------|
| Michigan Transportation Revenue Notes<br>(Act 143 of 1943) | \$1,800,000        | \$ (200,000)             | \$1,600,000         | \$ 200,000             |
| Installment Purchase Agreements                            |                    |                          |                     |                        |
| Caterpillar Financial Services                             |                    |                          |                     |                        |
| Grader 2003  | 154,495            | (14,223)                 | 140,272             | 14,802                 |
| Caterpillar Financial Services                             |                    |                          |                     |                        |
| Grader 2003  | 120,943            | (4,582)                  | 116,361             | 4,768                  |
| Vested Employee Benefits                                   |                    |                          |                     |                        |
| Vacation   | 50,420             | 4,315                    | 54,735              |                        |
| Sick   | 16,474             | (139)                    | 16,335              |                        |
| Total  | <u>\$2,142,332</u> | <u>\$ (214,629)</u>      | <u>\$1,927,703</u>  | <u>\$ 219,570</u>      |

The annual interest and principal requirements of the Road Commission's long-term borrowing may be summarized as follows:

### Notes Payable--Michigan Department of Transportation

On August 1, 2002, the Montcalm County Road Commission borrowed \$2,000,000 at interest rates ranging from 2 to 3.4%. Payments are to be made in varying amounts for 10 years from the Michigan Department of Transportation Fund Revenue Notes of 2003 to defray the cost of constructing certain road improvements and facilities under the provisions of Public Act 143 of 1943.

Principal and interest requirements to maturity are as follows:

| Maturity<br>Year | Principal<br>Outstanding<br>09/30/05 | February<br>Interest | August<br>Interest | Total<br>Annual<br>Payments |
|------------------|--------------------------------------|----------------------|--------------------|-----------------------------|
| 2006             | \$ 200,000                           | \$ 21,450            | \$ 21,450          | \$ 242,900                  |
| 2007             | 200,000                              | 19,450               | 19,450             | 238,900                     |
| 2008             | 200,000                              | 17,450               | 17,450             | 234,900                     |
| 2009             | 200,000                              | 15,200               | 15,200             | 230,400                     |
| 2010             | 200,000                              | 12,650               | 12,650             | 225,300                     |
| 2011             | 200,000                              | 9,750                | 9,750              | 219,500                     |
| 2012             | 200,000                              | 6,650                | 6,650              | 213,300                     |
| 2013             | 200,000                              | 3,400                | 3,400              | 206,800                     |
| Total            | <u>\$1,600,000</u>                   | <u>\$106,000</u>     | <u>\$106,000</u>   | <u>\$1,812,000</u>          |

# MONTCALM COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE G--LONG-TERM DEBT (Continued)

#### Installment Lease Purchase Agreement--Caterpillar Financial Services

The Montcalm County Road Commission entered into a lease agreement for \$176,944 at 4% interest on February 1, 2002 from Caterpillar Financial Services for the purpose of financing a grader. The lease agreement called for 59 monthly payments of principal and interest of \$1,674.96 and one payment of \$105,000. Principal and interest requirements to maturity are as follows:

| <u>Maturity<br/>Year</u> | <u>Principal<br/>Outstanding<br/>09/30/05</u> | <u>Interest<br/>Payable<br/>if Held to<br/>Maturity</u> | <u>Annual<br/>Payments</u> |
|--------------------------|---|---|----------------------------|
| 2006                     | \$ 14,802                                     | \$ 5,296  | \$ 20,098                  |
| 2007                     | 15,405  | 4,694   | 20,099                     |
| 2008                     | <u>110,065</u>                                | <u>1,076</u>  | <u>111,141</u>             |
| Total                    | <u>\$140,272</u>                              | <u>\$11,066</u>   | <u>\$151,338</u>           |

#### Installment Lease Purchase Agreement--Caterpillar Financial Services

The Montcalm County Road Commission entered into a lease agreement for \$128,175 at 4% interest on February 1, 2002 from Caterpillar Financial Services for the purpose of financing a grader. The lease agreement called for 59 monthly payments of principal and interest of \$776.80 and one payment of \$105,000. Principal and interest requirements to maturity are as follows:

| <u>Maturity<br/>Year</u> | <u>Principal<br/>Outstanding<br/>09/30/05</u> | <u>Interest<br/>Payable<br/>if Held to<br/>Maturity</u> | <u>Annual<br/>Payments</u> |
|--------------------------|---|---|----------------------------|
| 2006                     | \$ 4,768                                      | \$ 4,553  | \$ 9,321                   |
| 2007                     | 4,962   | 4,359   | 9,321                      |
| 2008                     | <u>106,631</u>                                | <u>1,058</u>  | <u>107,689</u>             |
| Total                    | <u>\$ 116,361</u>                             | <u>\$ 9,970</u>   | <u>\$126,331</u>           |

#### Vested Employee Benefits

Vacation is earned in varying amounts depending on the number of years of service of an employee. Vacation earned in 1 year is credited to employees on January 1st of the following year. An employee may accumulate up to and carry over from year-to-year 5 days of paid vacation.

## MONTCALM COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE G--LONG-TERM DEBT (Continued)

Sick leave is no longer earned effective November 28, 1988. The hours accumulated to that date are banked, and up to 3 days per occurrence may be used from the bank, after which disability insurance goes into effect. There is no pay out for the sick leave.

Upon termination of employment through retirement or death, vacation pay is payable at 100% not to exceed 30 days payment (240 hours).

#### NOTE H--EMPLOYEES' RETIREMENT SYSTEM

##### Description of Plan and Plan Assets

The Montcalm County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: Normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death allowance, duty-connected death allowance, post-retirement adjustments, and death-after-retirement surviving spouse benefit. The service requirement for general employees is under the B-2 provision of the retirement contract. This requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.0% of the final average compensation (FAC). The service requirement for salaried employees and commissioners is under the B-4 provision of the retirement contract. This requirement is computed using the same criteria as the B-2 provisions except a sum of 2.5% of the FAC is used. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2004.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, MCL 46.12(a), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

##### Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining units and requires a 1.5% contribution from general employees and a 3.5% contribution from salaried employees and commissioners. The employees contributed \$40,034 during the calendar year ended December 31, 2004. The Road Commission is required to contribute at an actuarially determined rate; the rate was 8.21% for general employees and 15.50% for the salaried employees and commissioners for the calendar year ending December 31, 2004.

# MONTCALM COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE H--EMPLOYEES' RETIREMENT SYSTEM (Continued)

#### Annual Pension Cost

For the year ended December 31, 2004 the Road Commission's annual pension cost was \$389,163. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity and promotional salary increases.

#### Three-Year Trend Information for GASB Statement No. 27

| <u>Year<br/>Ended<br/>December 31</u> | <u>Annual<br/>Pension<br/>Cost (APC)</u> | <u>Percentage<br/>of APC<br/>Contributed</u> |
|---------------------------------------|--|--|
| 2002                                  | \$ 364,047                               | 100%   |
| 2003                                  | 344,664                                  | 100%   |
| 2004                                  | 389,163                                  | 100%   |

#### Required Supplementary Information for GASB Statement No. 27

| <u>Actuarial<br/>Valuation<br/>Date</u> | <u>Actuarial<br/>Value of<br/>Assets</u> | <u>Actuarial<br/>Accrued<br/>Liability<br/>(AAL)</u> | <u>Underfunded<br/>(Overfunded)<br/>AAL<br/>(UAAL)</u> | <u>Funded<br/>Ratio</u> | <u>Covered<br/>Payroll</u> | <u>UAAL as a<br/>Percent<br/>of Covered<br/>Payroll</u> |
|---|--|--|--|-------------------------|----------------------------|---|
| 12/31/2002                              | \$ 6,531,184                             | \$ 7,691,890   | \$ 1,160,706   | 85%                     | \$ 2,025,510               | 57%   |
| 12/31/2003                              | 7,193,892                                | 9,766,582  | 2,572,690  | 74%                     | 1,805,672                  | 142%  |
| 12/31/2004                              | 7,611,830                                | 10,696,031   | 3,084,201  | 71%                     | 1,964,443                  | 157%  |

### NOTE I--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefits' claims other than dental and participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers' compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

## MONTCALM COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE I--RISK MANAGEMENT (Continued)

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State. The Montcalm County Road Commission became a charter member in 1982.

The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan; member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. If for any reason, the Pool's resources available to pay losses are depleted, the payment of all unpaid losses of the member is the sole obligation of the member.

Dental claims are paid by the Road Commission to the employee up to a maximum per household. Benefits lapse at year end.

#### NOTE J--POST-EMPLOYMENT BENEFITS

Montcalm County Road Commission provides post-employment health care benefits, in accordance with the labor contract and personnel policy, to all employees who retire from the Road Commission. The employer will pay all costs for health and vision insurance and prescription drugs, including spouse, for all vested employees who retire at age 60. The employer continues to pay the premiums until age 65. At age 65, retirees must reimburse the employer for the cost of insurance. For employees choosing to retire at age 55 with at least 15 years of service during an open window period, the Road Commission will pay ½ of the retiree's/spouse's monthly health insurance premium until the retiree turns age 60. The Road commission pays 100% of the retiree's health insurance premium from age 60-65.

Currently, 32 retirees meet those eligibility requirements. Expenditures for post-employment health care benefits are recognized when insurance premiums are paid. Premiums paid by the Road Commission for the fiscal year ending September 30, 2005 totaled \$58,661. The expenditures are recognized as the insurance premiums become due on a pay-as-you-go-basis.

## MONTCALM COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE K--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended September 30, 2005, the Federal aid received and expended by the Road Commission was \$299,740 for contracted projects and \$0 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit. Negotiated projects are defined as projects performed by Road Commission employees or private contractors paid for and administrated by the Road Commission.

#### NOTE L--CONTINGENT LIABILITIES AND SUBSEQUENT EVENTS

The Road Commission, in connection with the normal conduct of its affairs, is involved in various claims, judgments and litigation. The Road Commission's insurance carrier estimates that the potential claims against the Road Commission, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the Road Commission.

#### NOTE M--STATE TRUNKLINE MAINTENANCE REVENUE

The \$616 difference between the State trunkline maintenance revenues of \$901,934 and expenditures of \$902,550 is primarily due to expenditures in the amount of \$616, which had not been reported in the monthly billings to MDOT which was not reimbursed.



**MONTCALM COUNTY ROAD COMMISSION**  
**SCHEDULE OF REVENUES--BUDGETARY COMPARISON SCHEDULE**  
**For the Year Ended September 30, 2005**

**EXHIBIT G**

|                                      | Original<br>Adopted<br>Budget | Final<br>Amended<br>Budget | Actual        | Variance<br>Favorable<br>(Unfavorable) |
|--------------------------------------|-------------------------------|----------------------------|---------------|--|
| Taxes                                |                               |                            |               |  |
| National Forest Reserve              | \$ 500                        | \$ 500                     | \$ 534        | \$ 34                                  |
| Licenses and Permits                 |                               |                            |               |  |
| Permits                              | 10,000                        | 22,000                     | 20,795        | (1,205)                                |
| Federal Grants                       |                               |                            |               |  |
| Surface Transportation Program       | 746,620                       | 137,000                    | 135,801       | (1,199)                                |
| Economic Development D Funds         | 73,973                        | 30,000                     | 27,020        | (2,980)                                |
| Enhancement Funds                    | 234,464                       | 140,000                    | 136,919       | (3,081)                                |
| State Grants                         |                               |                            |               |  |
| Michigan Transportation Fund         |                               |                            |               |  |
| Engineering                          | 10,000                        | 10,000                     | 10,000        | -                                      |
| Primary Road                         | 3,220,216                     | 3,191,000                  | 3,188,715     | (2,285)                                |
| Local Road                           | 2,419,235                     | 2,400,000                  | 2,395,569     | (4,431)                                |
| Urban Primary                        | 30,533                        | 31,000                     | 30,481        | (519)                                  |
| Urban Local                          | 7,613                         | 7,600                      | 7,539         | (61)                                   |
| Snow Removal                         | 250                           | 270                        | 262           | (8)                                    |
| Economic Development Fund            |                               |                            |               |  |
| Rural Primary (D)                    | 337,589                       | 145,000                    | 141,180       | (3,820)                                |
| Trunkline Turnback                   | 43,565                        | 45,000                     | 44,177        | (823)                                  |
| State Buy Back--Federal Aid Exchange | -                             | 585,970                    | 585,969       | (1)                                    |
| Contributions--Local Units           |                               |                            |               |  |
| Townships                            | 1,408,000                     | 2,215,565                  | 2,229,035     | 13,470                                 |
| Other Governmental                   | 127,878                       | 127,878                    | 127,878       | -                                      |
| Charges for Services                 |                               |                            |               |  |
| State Trunkline Maintenance          | 667,400                       | 903,180                    | 901,934       | (1,246)                                |
| State Trunkline Non-Maintenance      | -                             | 16,221                     | 16,221        | -                                      |
| Charge for Services/Sales            | -                             | 170                        | 155           | (15)                                   |
| Salvage Sales                        | 1,000                         | 9,000                      | 8,409         | (591)                                  |
| Interest and Rents                   |                               |                            |               |  |
| Interest Earned                      | 10,000                        | 18,000                     | 15,908        | (2,092)                                |
| Dividends                            | 50,000                        | 134,000                    | 134,539       | 539                                    |
| Other Revenue                        |                               |                            |               |  |
| Sundry Refunds                       | 500                           | 6,200                      | 6,119         | (81)                                   |
| Cash Over (Short)                    | -                             | (15)                       | 7,987         | 8,002                                  |
| Other                                | -                             | 6,435                      | 6,433         | (2)                                    |
| Gain on Equipment Disposals          | -                             | 18,663                     | 18,663        | -                                      |
| Total Revenues                       | 9,399,336                     | 10,200,637                 | \$ 10,198,242 | \$ (2,395)                             |
| Fund Balance--October 1, 2004        | 829,387                       | 900,658                    |               |  |
| Total Budget                         | \$ 10,228,723                 | \$ 11,101,295              |               |  |

**MONTCALM COUNTY ROAD COMMISSION**  
**SCHEDULE OF EXPENDITURES--BUDGETARY COMPARISON SCHEDULE**  
**For the Year Ended September 30, 2005**

**EXHIBIT H**

|                                     | Original<br>Adopted<br>Budget | Final<br>Amended<br>Budget | Actual               | Variance<br>Favorable<br>(Unfavorable) |
|-------------------------------------|-------------------------------|----------------------------|----------------------|--|
| Primary Road                        |                               |                            |                      |  |
| Preservation/Structural Improvement | \$ 2,208,626                  | \$ 2,145,000               | \$ 2,171,396         | \$ (26,396)                            |
| Routine and Preventive Maintenance  | 1,122,475                     | 1,400,000                  | 1,397,295            | 2,705                                  |
| Local Road                          |                               |                            |                      |  |
| Preservation/Structural Improvement | 1,261,150                     | 1,615,000                  | 1,784,088            | (169,088)                              |
| Routine and Preventive Maintenance  | 2,331,846                     | 3,920,000                  | 3,915,168            | 4,832                                  |
| Primary Road Structure              |                               |                            |                      |  |
| Routine and Preventive Maintenance  | 5,000                         | 165                        | 203                  | (38)                                   |
| Local Road Structure                |                               |                            |                      |  |
| Preservation/Structural Improvement | -                             | 81,000                     | 80,960               | 40                                     |
| Routine and Preventive Maintenance  | 9,000                         | 4,500                      | 4,494                | 6                                      |
| State Trunkline                     |                               |                            |                      |  |
| Maintenance                         | 875,000                       | 905,000                    | 902,550              | 2,450                                  |
| Non-Maintenance                     | -                             | 16,225                     | 16,221               | 4                                      |
| Equipment Expense--Net              | (482,206)                     | (148,000)                  |                      |  |
| Direct                              |                               |                            | \$ 1,241,999         |  |
| Indirect                            |                               |                            | 498,561              |  |
| Operating                           |                               |                            | 385,309              |  |
| Less: Equipment Rentals             |                               |                            | <u>(2,192,853)</u>   | (66,984)                               |
|                                     |                               |                            |                      | (81,016)                               |
| Fringe Benefits                     | 1,052,473                     | -                          |                      | -                                      |
| Distributive Expenses               | 398,660                       | -                          |                      | -                                      |
| Administrative Expense--Net         | 208,811                       | 384,000                    |                      |  |
| Administrative Expense              |                               |                            | 494,962              |  |
| Less: Overhead--State Trunkline     |                               |                            | (87,047)             |  |
| Overhead--Other                     |                               |                            | (1,776)              |  |
| Purchase Discounts                  |                               |                            | <u>(18,278)</u>      | (3,861)                                |
| Capital Outlay--Net                 | 371,000                       | 265,435                    |                      |  |
| Capital Outlay                      |                               |                            | 860,434              |  |
| Less: Depreciation Credits          |                               |                            | (591,731)            |  |
| Equipment Retirements               |                               |                            | <u>-</u>             | (3,268)                                |
| Debt Service                        |                               |                            |                      |  |
| Principal                           | 218,805                       | 218,805                    | 218,805              | -                                      |
| Interest and Fiscal Fees            | 34,066                        | 57,517                     | 57,515               | 2                                      |
| Total Expenditures                  | 9,614,706                     | 10,864,647                 | <u>\$ 11,138,275</u> | <u>\$ (273,628)</u>                    |
| Fund Balance--September 30, 2005    | 614,017                       | 236,648                    |                      |  |
| Total Budget                        | <u>\$ 10,228,723</u>          | <u>\$ 11,101,295</u>       |                      |  |

**MONTCALM COUNTY ROAD COMMISSION**  
**ANALYSIS OF CHANGES IN FUND BALANCES**  
**For the Year Ended September 30, 2005**

**EXHIBIT I**

|  | Primary<br>Road Fund | Local<br>Road Fund | County<br>Road<br>Commission | Total        |
|--|----------------------|--------------------|------------------------------|--------------|
| Total Revenues   | \$ 4,456,861         | \$ 4,618,742       | \$ 1,122,639                 | \$10,198,242 |
| Total Expenditures   | 3,863,422            | 5,981,349          | 1,293,504                    | 11,138,275   |
| Excess of Revenues Over<br>(Under) Expenditures                              | 593,439              | (1,362,607)        | (170,865)                    | (940,033)    |
| Other Financing Sources and (Uses)   |                      |                    |                              |              |
| Optional Transfer  | (980,780)            | 980,780            |                              | -            |
| Interfund Transfer   | 387,341              | 381,827            | (769,168)                    | -            |
| Total Other Financing Sources and (Uses)                                     | (593,439)            | 1,362,607          | (769,168)                    | -            |
| Excess of Revenues and Other Sources and (Uses)<br>Over (Under) Expenditures | -                    | -                  | (940,033)                    | (940,033)    |
| Fund Balance--October 1, 2004  | -                    | -                  | 2,282,866                    | 2,282,866    |
| Fund Balance--September 30, 2005   | \$ -                 | \$ -               | \$ 1,342,833                 | \$ 1,342,833 |

**MONTCALM COUNTY ROAD COMMISSION**  
**ANALYSIS OF REVENUES**  
**For the Year Ended September 30, 2005**

**EXHIBIT J**

|                                      | Primary<br>Road Fund | Local<br>Road Fund | County<br>Road<br>Commission | Total         |
|--------------------------------------|----------------------|--------------------|------------------------------|---------------|
| Taxes                                |                      |                    |                              |               |
| National Forest Reserve              |                      |                    | \$ 534                       | \$ 534        |
| Licenses and Permits                 |                      |                    |                              |               |
| Permits                              |                      |                    | 20,795                       | 20,795        |
| Federal Grants                       |                      |                    |                              |               |
| Contracted                           |                      |                    |                              |               |
| Surface Transportation Program       | \$ 135,801           |                    |                              | 135,801       |
| Economic Development D Funds         | 27,020               |                    |                              | 27,020        |
| Enhancement Funds                    | 136,919              |                    |                              | 136,919       |
| State Grants                         |                      |                    |                              |               |
| Michigan Transportation Fund         |                      |                    |                              |               |
| Engineering                          | 5,744                | \$ 4,256           |                              | 10,000        |
| Allocation                           | 3,188,715            | 2,395,569          |                              | 5,584,284     |
| Urban                                | 30,481               | 7,539              |                              | 38,020        |
| Snow Removal                         | 150                  | 112                |                              | 262           |
| Economic Development Fund            |                      |                    |                              |               |
| Rural Primary (D)                    | 141,180              |                    |                              | 141,180       |
| Trunkline Turnback                   | 44,177               |                    |                              | 44,177        |
| State Buy Back--Federal Aid Exchange | 585,969              |                    |                              | 585,969       |
| Contributions From Local Units       |                      |                    |                              |               |
| Townships                            | 17,769               | 2,211,266          |                              | 2,229,035     |
| Other Governmental Contributions     | 127,878              |                    |                              | 127,878       |
| Charges for Services                 |                      |                    |                              |               |
| State Trunkline Maintenance          |                      |                    | 901,934                      | 901,934       |
| State Trunkline Non-Maintenance      |                      |                    | 16,221                       | 16,221        |
| Salvage Sales                        |                      |                    | 8,409                        | 8,409         |
| Charge for Services/Sales            |                      |                    | 155                          | 155           |
| Interest and Rents                   |                      |                    |                              |               |
| Interest Earned                      |                      |                    | 15,908                       | 15,908        |
| Dividend                             |                      |                    | 134,539                      | 134,539       |
| Other Revenue                        |                      |                    |                              |               |
| Sundry Refunds                       |                      |                    | 6,119                        | 6,119         |
| Cash Over (Short)                    |                      |                    | 7,987                        | 7,987         |
| Other                                | 3,860                |                    | 2,573                        | 6,433         |
| Gain on Equipment Disposal           | 11,198               |                    | 7,465                        | 18,663        |
| Total Revenues                       | \$ 4,456,861         | \$ 4,618,742       | \$ 1,122,639                 | \$ 10,198,242 |

**MONTCALM COUNTY ROAD COMMISSION**  
**ANALYSIS OF EXPENDITURES**  
**For the Year Ended September 30, 2005**

**EXHIBIT K**

|  | Primary<br>Road Fund | Local<br>Road Fund | County<br>Road<br>Commission | Total        |
|--|----------------------|--------------------|------------------------------|--------------|
| Primary Road                                   |                      |                    |                              |              |
| Construction/Capacity Improvement              |                      |                    |                              |              |
| Preservation/Structural Improvement            | \$2,171,396          |                    |                              | \$ 2,171,396 |
| Routine and Preventive Maintenance             | 1,397,295            |                    |                              | 1,397,295    |
| Local Road                                     |                      |                    |                              |              |
| Preservation/Structural Improvement            |                      | \$1,784,088        |                              | 1,784,088    |
| Routine and Preventive Maintenance             |                      | 3,915,168          |                              | 3,915,168    |
| Primary Road Structures                        |                      |                    |                              |              |
| Maintenance                                    | 203                  |                    |                              | 203          |
| Local Road Structures                          |                      |                    |                              |              |
| Preservation/Structural Improvement            |                      | 80,960             |                              | 80,960       |
| Routine and Preventive Maintenance             |                      | 4,494              |                              | 4,494        |
| State Trunkline                                |                      |                    |                              |              |
| Maintenance                                    |                      |                    | \$ 902,550                   | 902,550      |
| Non-Maintenance                                |                      |                    | 16,221                       | 16,221       |
| Equipment Expense--Net<br>(Per Exhibit H)      | (14,683)             | (43,232)           | (9,069)                      | (66,984)     |
| Administrative Expense--Net<br>(Per Exhibit H) | 147,990              | 239,871            |                              | 387,861      |
| Capital Outlay--Net<br>(Per Exhibit H)         | 161,221              |                    | 107,482                      | 268,703      |
| Debt Service                                   |                      |                    |                              |              |
| Principal                                      |                      |                    | 218,805                      | 218,805      |
| Interest and Fiscal Fees                       |                      |                    | 57,515                       | 57,515       |
| Total Expenditures                             | \$3,863,422          | \$5,981,349        | \$1,293,504                  | \$11,138,275 |



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

JAY B. RISING  
STATE TREASURER

December 20, 2005

Board of County Road Commissioners  
Montcalm County  
619 West Main Street  
P.O. Box 337  
Stanton, Michigan 48888

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other  
Matters Based on an Audit of Financial Statements Performed in Accordance With  
Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of the Montcalm County Road Commission, a component unit of Montcalm County, as of and for the year ended September 30, 2005, and have issued our report thereon dated December 20, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered the Montcalm County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Montcalm County Road Commission's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying comments and recommendations as finding 05-01.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all

reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

Compliance and Other Matters--As part of obtaining reasonable assurance about whether the Montcalm County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of comments and recommendations as item 05-2.

This report is intended solely for the information of the Montcalm County Board of Road Commissioners, management and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

## MONTCALM COUNTY ROAD COMMISSION

### COMMENTS AND RECOMMENDATIONS

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect Montcalm County Road Commission's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is an internal control deficiency in which the design or operation of a component(s) of internal control does not reduce to a relatively low level the risk that a material misstatement may be contained in the financial statements.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable condition that we believe to be a material weakness.

The Road Commission is relatively small in size. Therefore, there is an overall lack of segregation of duties which should be considered when reviewing the weakness listed below. Segregation of duties requires that key duties and responsibilities be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event. Even though the Road Commission is relatively small in size, they have incorporated compensating controls for the lack of segregation of duties in many areas.

#### MATERIAL WEAKNESS

##### Inventory

*Finding 05-1*

*Condition:* A physical inventory was taken for most parts and materials near the end of the September 30, 2005 fiscal year. On December 15, 2005, we randomly selected 20 stock items from the 110 Inventory - Equipment Parts and Materials account and 5 kinds of signs from the 109 Inventory - Road Materials account. We compared the inventory status report with our actual counts to determine the accuracy of the inventory status reports. We also compared the distribution report with the inventory status report at September 30, 2005. There were 9 out of 25 inventory items that were not in agreement with the inventory status report.

*Criteria:* All assets must be safeguarded and detail records must be reconciled to control totals.

*Recommendation:* We recommend that a physical inventory be taken for all parts and materials before the end of each fiscal year. More care should be taken when taking the physical inventory and posting inventory adjustments to the inventory records to improve the accuracy of the inventory records and decrease the size of inventory adjustments.

The subsidiary report for inventory should be reconciled with the general ledger monthly.



## MONTCALM COUNTY ROAD COMMISSION

### COMMENTS AND RECOMMENDATIONS

#### STATUTORY COMPLIANCE

Our examination revealed the following instances of noncompliance with State statutes.

#### Uniform Budgeting and Accounting Act Provisions--Expenditures

*Finding 05-2*

*Condition:* As detailed in Exhibit H, expenditures in 6 of 16 activities exceeded the final amended budget, and expenditures exceeded the budget in total.

*Criteria:* The expenditure of funds in excess of the budget is contrary to the provisions of Public Act 2 of 1968, as amended, which provides, in part, as follows:

"Except as otherwise provided in Section 19, a deviation from the original general appropriations act (budget) shall not be made without amending the general appropriations act. The legislative body (board of county road commissioners) of the local unit shall amend the general appropriations act as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined."

Section 18(3) also provides, in part, that:

"...except as otherwise provided in Section 19, an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body."

*Recommendation:* We recommend that the Road Commission comply with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act, being Sections 141.421-141.440 of the Michigan Compiled Laws.